

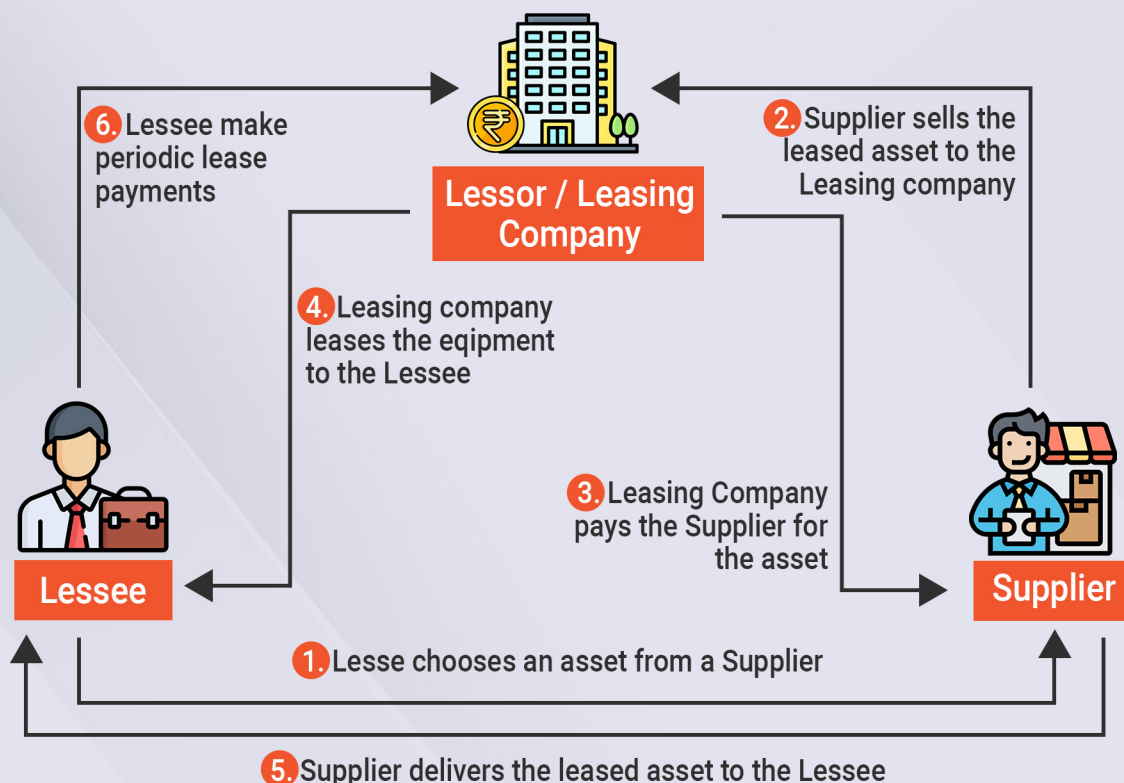
Decoding Asset Leasing

Case Study #2

Introduction

In today's case study, we explore an asset leasing where Vivriti acted as the lessor/leasing company to the lessee, which we are referring as ABC Ltd, to help them conserve capital, monetize their existing capital investments, and manage cash flows.

A lease is a contractual agreement in which the owner (lessor) of an asset (the leased asset) offers it to the lessee for use in exchange for rent, which can be either a fixed amount or based on variables. This arrangement spans a defined period, which can be fixed or flexible. It includes an understanding that at the end of this period, the asset will either be returned to the lessor or disposed of according to the lessor's instructions, depending on embedded lease options.



Below we present the key findings of the diligence process about the company and argue in favour of ABC for leasing.

Company background



History

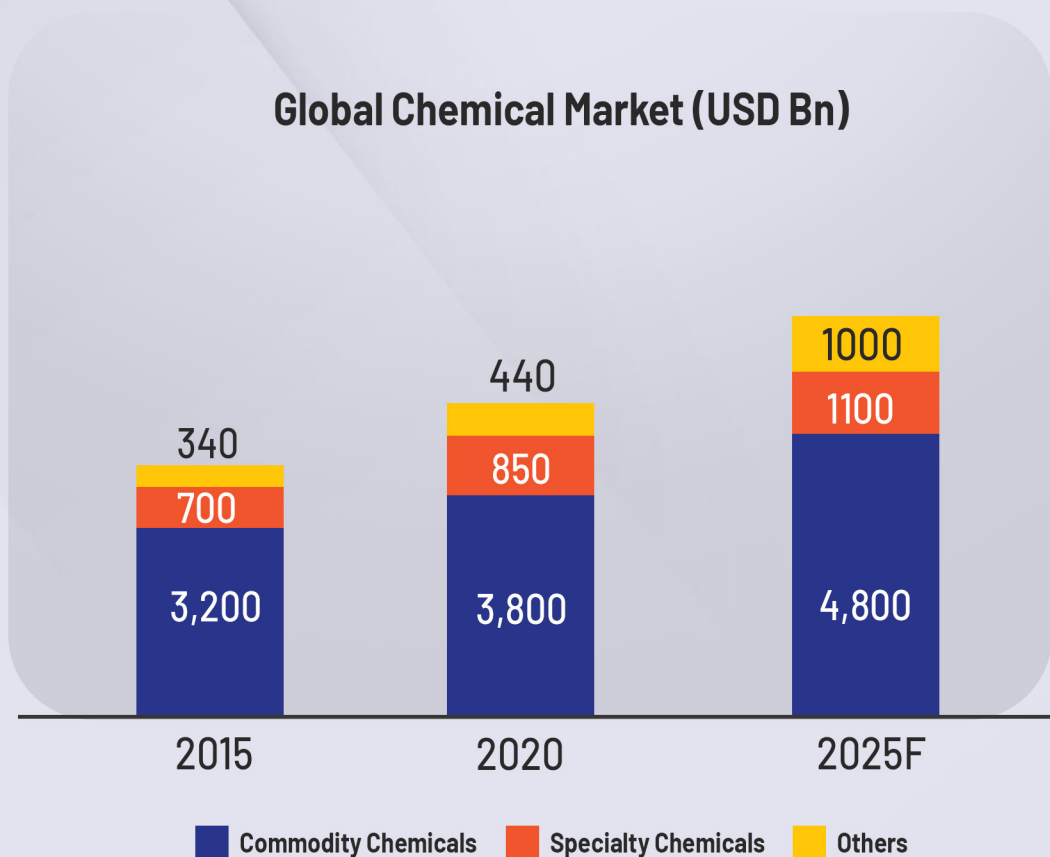
ABC Ltd, based out of a Tier-1 metro city, manufactures intermediate specialty chemicals and has a strong presence in the industry for more than five decades.

A family-managed business and India's oldest manufacturer in the space, about 70-80% of the company's shares remain closely held by its promoters and holding company. The entity also has a subsidiary outside of India, to cater directly to the factories of its clients there.



Industry

India is the sixth largest manufacturer of chemicals in the world and fourth largest in Asia. The chemicals industry in India covers more than 80,000 commercial products. The value of the Indian chemical industry was pegged at about US\$180 billion in FY20 and is expected to cross US\$250 billion by 2024-25. The Asia Pacific (APAC) dominates the specialty chemicals industry across the world, with over 40% share of the overall market.



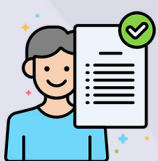
Indian specialty chemicals industry has been on a solid growth trajectory over the past few years, consistently being one of the most resilient segments within the Indian manufacturing sector.

We hold a favourable outlook on the sector in the current scenario.



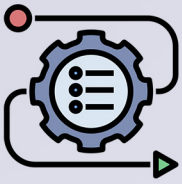
Credit Rating

The shortlisted entity has an internal credit rating of BBB and bears no rating by an external rating agency.



Credit Profile

ABC has a concentrated lender base with over 50% occupied by three private lenders.



Other Factors

The company has been considered in positive light for the following reasons:

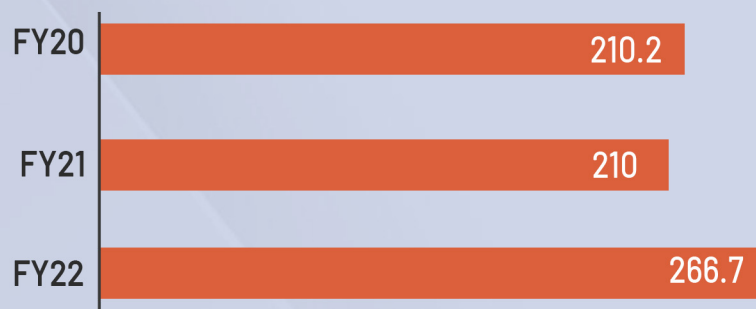
- Solid business vintage and experienced management team.
- Promoters' credibility and reputation in the industry.
- Growth in revenue and EBITDA in FY23.

Why ABC Ltd was chosen?

After the company passed all the key profiling criteria, Vivriti Capital considered to explore leasing with ABC on the following criteria:

- The company has witnessed a decent growth of about 30-35% in topline from FY21 to FY23.
- ABC witnessed a CAGR of 5-10% in revenue from FY20 to FY22.

Revenue (INR crores)



Conclusion

Vivriti Capital has considered ABC Ltd for leasing and the proposed amount is at the lower limit of loan ticket size set internally.

This is based on several parameters as discussed above that include the company's reputation in the market, good vintage, promoter's standing, and scale of operations.

Disclaimer:

The financial data provided in the report is only for representation and are not exact values reported by the company.